

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07

SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3406

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 12/31/75

TAGS: EAID, EFIN, KS

SUBJECT: POST-EVALUATION OF SEOUL-INCHEON EXPRESSWAY PROJECT
(KOREA)

REF: MANILA 3815 NOTAL

1. POST-EVALUATION OF SEOUL-INCHEON EXPRESSWAY PROJECT
IN REPUBLIC OF KOREA (ADB DOC. SE.M23-74 POUCHED
MARCH 15 AND ADDENDUM 1 POUCHED MARCH 27) WAS CONDUCTED
BY BANK'S ECONOMIC OFFICE (WITH ASSISTANCE OF OUTSIDE
ENGINEER CONSULTANT). AFTER COMPLETION OF REPORT AND
ON RECOMMENDATION OF POST-EVALUATION MISSION, STAFF OF
OPERATIONS PROJECTS DEPARTMENTS VISITED KOREA AND
CONDUCTED EXAMINATION OF LOAN ADMINISTRATION ASPECTS OF
PROJECT DETAILS. FINDINGS OF STAFF STUDY WERE THEN
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SUBMITTED TO BOARD OF DIRECTORS FOR INFORMATION (ADB DOC.

SEC.M37-74 POUCHD APRIL 23). POST-EVALUATION OF SEOUL-INCHEON EXPRESSWAY PROJECT IS NOW CONSIDERED TO BE COMPLETED.

2. REPORT CONCLUDED THAT PROJECT FULFILLED ITS PRIMARY OBJECTIVE, AS ENVISAGED AT APPRAISAL STAGE, BY PROVIDING DIRECT AND LIMITED-ACCESS LINK BETWEEN SEOUL AND INCHEON, THEREBY FACILITATING OR ACCELERATING DEVELOPMENT PROCESS ON WHOLE. PRINCIPAL QUANTIFIED SOURCES OF BENEFIT ARE VEHICLE OPERATING COST SAVING, PASSENGER TIME SAVING AND GENERATING TRAFFIC. ECONOMIC INTERNAL RATE OF RETURN ON EXPRESSWAY ESTIMATED IN RANGE OF 29 TO 34 PERCENT COMPARED WITH 18 PERCENT ESTIMATED DURING APPRAISAL. FINANCIAL INTERNAL RATE OF RETURN ESTIMATED AT 14 PERCENT COMPARED WITH 9 PERCENT ESTIMATED DURING APPRAISAL.

3. PROJECT WAS AT ADVANCED STAGE OF IMPLEMENTATION WHEN BOARD OF DIRECTORS APPROVED BANK LOAN. MUCH OF EXPRESSWAY WAS BUILT ON RICE FIELD SOILS AND SOFT FOUNDATIONS WERE ENCOUNTERED AT SEVERAL LOCATIONS. AT TIME OF APPRAISAL IN 1968, BANK MISSION RECOMMENDED THAT BASE COURSE BE REINFORCES BY ASPHALT PENETRATION AND THAT LAYING OF FINAL PAVEMENT BE POSTPONED UNTIL EMBANKMENTS HAD TIME TO SETTLE SUFFICIENTLY. WHILE BOTH RECOMMENDATIONS WERE INITIALLY ACCEPTED BY KOREAN GOVT, AFTER FURTHER CONSULTATIONS WITH BANK, GOVT DID NOT IMPLEMENT THEM. THERE WERE SUBSEQUENT PAVEMENT FAILURES IN EARLY YEARS OF PROJECT LIFE. POST-EVALUATION REPORT CONCLUDES THAT, FROM ECONOMIC POINT OF VIEW, IMPORTANCE OF ABOVE RECOMMENDATIONS IN RETROSPECT REMAINS IN DOUBT. DELAYING OPENING OF EXPRESSWAY BY ONE YEAR WOULD HAVE REDUCED SUBSEQUENT ROAD REPAIR COST, BUT AT SAME TIME WOULD HAVE DEFERRED ROAD USER BENEFITS FOR CORRESPONDING PERIOD.

4. AT TIME LOAN WAS MADE, IT WAS KNOWN THAT PART OF EQUIPMENT FROM LOAN PROCEEDS WOULD BE UTILIZED ON OTHER GOVT PROJECTS AND THAT SOME OF CONSTRUCTION MATERIALS TO BE PROCURED WOULD REPLACE GOVT STOCKS PREVIOUSLY DIVERTED TO PROJECT. POST-EVALUATION REPORT RECOMMENDED THAT QUESTION OF LOAN UTILIZATION, ESPECIALLY WITH RESPECT TO MATERIALS, BE FURTHER EXAMINED BY BANK. STAFF TEAM THAT SUBSEQUENTLY LIMITED OFFICIAL USE

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VISITED KOREA CONCENTRATED ON QUESTIONS RAISED IN REPORT REGARDING MAINTENANCE EQUIPMENT AND CONSTRUCTION MATERIALS FINANCED UNDER BANK LOAN. INVESTIGATION DID NOT UNCOVER ANY IRREGULARITIES.

5. CHIEF OF POST-EVALUATION MISSION WAS AMERICAN STAFF ECONOMIST JOHN K. CHANG, WHO HAS TAKEN KEEN INTEREST IN SUBJECT AND IS CURRENTLY EVALUATING THIRD BANK PROJECT

(TADJUM IRRIGATION IN INDONESIA). USADB WAS VERY FAVORABLY IMPRESSED WITH FINAL PRODUCT. HOWEVER, WORDING OF TRANSMITTAL MEMORANDUM ATTACHED TO POST-EVALUATION REPORT, PRESUMABLY PREPARED BY VICE PRESIDENT, NOTES THERE IS EVIDENCE TO SUGGEST THAT SIZABLE AMOUNT OF CONSTRUCTION MATERIALS AND MAINTENANCE EQUIPMENT FINANCED FROM LOAN PROCEEDS HAS NOT BEEN USED ON BANK PROJECT. KOREAN DIRECTOR INTERPRETED COMMENT TO IMPLY THAT LOAN PROCEEDS MAY HAVE BEEN MISUSED. MANAGEMENT SUBSEQUENTLY ISSUED ADDENDUM 1 TO POST-EVALUATION REPORT TO CLARIFY THAT (A) LOAN AS ORIGINALLY APPROVED HAD PROVIDED THAT SOME MATERIALS AND EQUIPMENT WOULD NOT BE USED ON EXPRESSWAY PROJECT ITSELF AND (B) FURTHER STUDY OF SOME LOAN ADMINISTRATION ASPECTS OF PROJECT HAD BEEN PROPOSED BECAUSE THEY WERE NOT COVERED BY ORIGINAL TERMS OF REFERENCE OF POST-EVALUATION.

6. MANAGEMENT'S HANDLING OF REPORT -- SPECIFICALLY WORDING IN TRANSMITTAL MEMORANDUM -- HAS BEEN CLUMSY, TO SAY THE LEAST, AND IT MAY HAVE UNFORTUNATE REPERCUSSIONS RE U.S. EFFORTS FOR APPROVAL BY BOARD OF DIRECTORS OF OVERALL POST-EVALUATION POLICY RECENTLY PROPOSED BY BANK PRESIDENT PER REFTTEL.

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